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THE GOVERNMENT OF CANADA AND CO-ENERCO: the cooperative movement turns to energy

The cooperative movement is a well-established part of Canadian life. Canadians are involved in cooperative enterprises in many provinces and in many fields: agriculture, dairy products, finance, housing, fisheries, insurance, medicine and many others.

The cooperative movement first became involved in energy in 1934 when some resourceful Saskatchewan farmers pooled their funds to form a cooperative and build the first Canadian-owned refinery. They raised \$35 000 — in some cases by mortgaging their farms. Today the Consumers' Cooperative Refineries Limited refines 7949 cubic metres (50 000 barrels) of crude oil per day. Its role is expected to expand further with the addition of facilities to upgrade Saskatchewan heavy oil.

The kind of energy and spirit demonstrated by those pioneers still exists, and is being actively

encouraged by the Government of Canada. Under the Canada/Cooperative Energy Investment Agreement, signed in December 1981 by the Government of Canada and 20 cooperatives, wheat pools and credit unions from across Canada, two corporations were created. The existence of these corporations will make it easier for Canadians to join together to develop their energy resources. The Government of Canada agreed to provide up to \$100 million in seed money by matching dollar for dollar the capital invested by the cooperatives.

The first of these corporations is the Cooperative Energy Corporation (CEC), a holding company, which is owned by the cooperatives and the Government of Canada. On July 16, 1982, the cooperatives committed \$57.8 million over the next four years to CEC. The Government of Canada matched this with a cash contribution of \$57.8 million.

The second corporation established under the Agreement is the Cooperative Energy Development Corporation (CEDC). Known as Co-enerco, this firm is an operating energy company which is actively involved in oil and gas exploration and production. As the company grows, it will play a role in the development of other forms of energy.

Why was Co-enerco created?

Partly as a result of the energy supply and pricing changes in recent years, unique opportunities for Canadian investment in Canada's rich oil and gas resources have emerged. The leaders of Canada's cooperatives recognized these opportunities, and they were concerned about the security of future energy supplies. They decided to form a cooperative energy company to build on these opportunities, and at the same time contribute to Canada's energy future. Co-enerco gives Canadians, in particular members of cooperatives, a chance to invest in a new Canadian energy company.

Why is the Government of Canada involved?

So that Co-enerco could get started quickly and on a sound financial footing, the cooperatives approached the Government of Canada for start-up capital.

Because it is committed to providing long-term energy security for Canadians and to the principle of Canadian ownership, the Government of Canada agreed to provide the seed money.

What will Co-enerco do?

The company will explore for and develop oil, gas and other energy sources, which will help to provide long-term security of supply for Canadians. It will participate directly in the energy sector, thereby furthering the goal of increased Canadian ownership and control of the petroleum industry.

In 1982, Co-enerco purchased the Canadian assets and properties of Sabine Corporation of Dallas, Texas. With this acquisition, Co-enerco became a fully operational energy company with established cash flow, producing properties, operating capabilities and exploration and production programs — all backed by carefully chosen, professional personnel.

Initially Co-enerco is concentrating on building its cash flow through oil and gas exploration and production in the conventional areas of western Canada, but as further economic opportunities are identified, activity may expand to Canada's energy frontiers.

Co-enerco and incentives

The Government of Canada through its Petroleum Incentives Program (PIP) provides partial reimbursement of certain eligible exploration and development expenses. The amount of the incentives varies according to a number of factors, including the company's degree of Canadian ownership. For petroleum activity within provincial borders, the Government of Alberta funds and administers the Alberta Petroleum Incentives Program.

Co-enerco is 100 per cent Canadian owned, so it will benefit to the maximum extent possible from these incentive payments.

Who owns Co-enerco?

CEC, the holding company, is Canadian owned, half by the cooperatives and half by the Government of Canada. In 1987, the cooperatives will have the right to buy out the Government of Canada's share based on the asset value of CEC at that time. CEC is a private corporation which can be owned only by the cooperatives and the Canadian government.

Co-enerco, the operating energy company, is now wholly owned by CEC, but share offerings to

the public will allow individual Canadians to buy shares in the company.

Co-enerco has a staff of 90 people, and its head office is located in Calgary, Alberta.

How will individual Canadians participate?

Co-enerco securities offerings will eventually provide Canadians with an opportunity to participate in a Canadian company and allow individuals to benefit from its successful exploration and development endeavours. To this end, no shares of any voting class may be owned by a person or corporation not qualified as a Canadian citizen and resident.

How is Co-enerco managed?

The directors of the holding company (CEC) are appointed in the ratio of three representatives from cooperatives to one from the Government. This ensures cooperative control. CEC will at all times appoint the majority of Co-enerco's directors. As required under the Canada/Cooperative Energy Investment Agreement, the Minister of Energy, Mines and Resources, on behalf of the Government of Canada, and a representative of the cooperatives review and approve certain major transactions. At such time as Co-enerco is no longer majority owned by CEC, the review procedures will not be required.

Co-enerco's senior management has been recruited from both the energy and cooperative sectors to ensure a high level of expertise in petroleum exploration, development and finance.

What is the future direction of Co-enerco?

Co-enerco does not plan to become involved in the refining and marketing of retail petroleum products. There are several cooperatives already involved in these areas.

Co-enerco is concentrating initially on oil and gas exploration but, as it becomes financially stronger, will participate in the research and development of alternative energy sources and exploration on Canada's frontiers.